Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

5.3 Initial and subsequent measurement

Financial assets

Held-to-maturity Investments and Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at Fair Value and Available-for-Sale are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

Financial liabilities

Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected lifespan of the financial instrument, or when appropriate a shorter period, to the net carrying amount of the financial asset or liability.

5.4 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence of impairment of financial assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer Debtors are stated at cost less a provision for bad debts. The provision is made so that the recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available-for-Sale equity securities, impairment losses previously recognised through profit or loss are not reversed through the Statement of Financial performance. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

5.5 Derecognition of financial assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

5.6 Derecognition of financial liabilities

The municipality derecognises financial liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

6. RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

Credit Risk

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

Liquidity Risk

- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 3 to the Annual Financial Statements.

7. INVENTORIES

7.1 Initial recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

7.2 Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Water and purified effluent are valued at purified cost insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

8. NON-CURRENT ASSETS HELD FOR SALE

8.1 Initial recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

8.2 Subsequent measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets, and is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

9. REVENUE RECOGNITION

Revenue comprises the fair value of the remuneration received or receivable for the sale of services or goods in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

9.1 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

9.1.1 Service Charges

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the

consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

9.1.2 Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. At year-end the recognition is based on an estimate of the prepaid electricity consumed as at the reporting date.

9.1.3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

9.1.4 Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

9.1.5 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the service is rendered by applying the relevant approved tariff. This includes the issuing of licences and permits.

9.1.6 Income from agency services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

9.1.7 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

9.1.8 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

9.2 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

9.2.1 Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

9.2.2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from the issuing of summonses is only recognised when collected by the courts. Due to the various legal processes that can apply to summonses and the inadequate information received from the courts, it is not possible to measure this revenue when the summons is issued.

9.2.3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

9.2.4 Other donations and contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

9.2.5 Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

10. GOVERNMENT GRANTS AND RECEIPTS

Government grants and conditional receipts are recognised as revenue when:

a) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
b) the amount of the revenue can be measured reliably, and
c) to the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding is therefore recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

11. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

12. EMPLOYEE BENEFITS

12.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as a current provision.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

12.2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

12.3 Post Retirement Benefits

The Municipality provides post retirement benefits for its employees and councillors.

Defined Contribution Plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

12.3.1 Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. The other Medical Aid Funds, with which the Municipality is associated, do not provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Past-service costs are recognised immediately in income, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

12.3.2 Multi-employer Defined Benefit Plans and Defined Contribution Plans

The municipality contributes to various National- and Provincial-administered Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 4 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued tri-annually on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

13. LEASES

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee.

Operating leases are those leases that do not fall within the scope of the above definition.

<u>The Municipality as Lessee</u>
Property, plant and equipment or Intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating lease rentals are recognised as an expense on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised and recorded on a straight-line basis over the term of the relevant lease.

14. BORROWING COSTS

The municipality capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised as an expense in the Statement of Financial Performance.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

15. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

16. VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the cash basis.

17. CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash with bank, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

18. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance in the year that the expense was incurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

19. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

20. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance in the year that the expenditure was recorded and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

21. FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

22. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

23. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the

Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

24. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events are accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date are disclosed in the notes to the Annual Financial Statements.

25. COMPARATIVE INFORMATION

25.1 Current year comparatives:
Budgeted amounts have, in accordance with GRAP 1, been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

25.2 Prior year comparatives:
When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the amendment. The nature and reason for the restatement is disclosed.

26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

27. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

KOUGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2010

	Note	KOUGA LOCAL MUNICIPALITY 2010 R	2009 R
NET ASSETS AND LIABILITIES			
Net Assets		**201 971 288**	**213 808 937**
Accumulated Surplus		201 971 288	213 808 937
Non-Current Liabilities		**135 465 329**	**114 067 314**
Long-term liabilities	3	89 509 713	72 166 350
Provision for post- retirement benefits	4		
Post-Employment Health Care Benefit Liability		33 520 851	30 345 000
Ex-Gratia Pension Benefit Liability		268 724	299 724
Other non-current provisions	5	12 166 040	11 256 241
Current Liabilities		**139 958 511**	**85 910 075**
Consumer Deposits	6	7 035 217	6 314 570
Provisions	7	16 359 885	10 976 759
Creditors	8	45 783 689	31 867 061
Unspent Conditional Grants and Receipts	9	30 807 709	24 777 791
Operating Lease Liability	11	36 197	36 197
Bank Overdraft	23	19 253 820	4 541 637
Current Portion of Long-term Liabilities	3	20 681 994	7 396 058
Total Net Assets and Liabilities		**477 395 127**	**413 786 326**
ASSETS			
Non-Current Assets		**352 197 403**	**294 836 462**
Property, Plant and Equipment	12	351 203 566	278 154 433
Investment Property	13	84 426	84 426
Intangible Assets	14	372 346	372 346
Investments	15	-	15 949 847
Long-term Receivables	16	537 065	275 409
Current Assets		**125 197 724**	**118 949 864**
Inventory	17	5 970 315	4 768 812
Trade Receivables from Exchange Transactions	19	64 546 231	44 450 678
Trade Receivables from Non-Exchange Transactions	20	7 731 830	16 266 080
Current Portion of Long-term Receivables	16	123 204	120 312
Assets classified as Held-for-Sale	21	-	-
VAT	10	5 800 873	5 772 954
Operating lease asset	22	61 061	58 719
Cash and cash equivalents	23	40 964 210	47 512 310
Total Assets		**477 395 127**	**413 786 326**

KOUGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2010

	Note	KOUGA LOCAL MUNICIPALITY 2010 R	2009 R
REVENUE			
Revenue from Non-exchange transactions			
Property Rates	24	89 643 093	74 303 808
Fines		1 781 926	3 217 607
Licenses and Permits	28	4 660 579	3 673 690
Government Grants and Subsidies	29	60 536 648	77 290 264
Revenue from Exchange transactions			
Service Charges	25	194 067 301	160 480 808
Rental of Facilities and Equipment	26	549 702	448 561
Interest Earned - External Investments	27	4 060 920	10 172 881
Interest Earned - Outstanding Debtors	27	6 185 819	3 835 835
Interest Earned - Fair value adjustment of rates	27	3 827 701	5 322 951
Other Income	30	7 522 962	20 781 658
Gains on disposal of Property, Plant and Equipment		51 806	188 597
Total Revenue		**372 888 457**	**359 716 657**
EXPENDITURE			
Employee Related Costs	31	154 069 453	117 116 210
Remuneration of Councillors	32	5 342 953	5 578 448
Bad debts and impairment losses	33	30 174 980	9 194 219
Collection costs		-	82 931
Contracted services		174 997	625 139
Depreciation and amortization	34	-	-
Impairment losses		27 223	178 396
Repairs and Maintenance		23 635 300	21 849 869
Interest Paid	35	13 087 558	16 530 229
Bulk Purchases	36	87 467 297	66 255 014
Grants and Subsidies Paid	37	11 987 521	14 841 837
General Expenses	38	58 758 825	60 055 053
Total Expenditure		**384 726 106**	**312 307 347**
SURPLUS / (DEFICIT) FOR THE YEAR		**(11 837 649)**	**47 409 311**

Refer to Appendix E(1) for comparison with the approved budget

KOUGA LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2010

Description	KOUGA LOCAL MUNICIPALITY Accumulated Surplus	Total
	R	R
Balance at 30 June 2008	166 399 626	166 399 626
2009		
Surplus for the year ended 30 June 2009	47 409 311	47 409 311
Balance at 30 June 2009	213 808 937	213 808 937
2010		
Deficit for the year ended 30 June 2010	(11 837 649)	(11 837 649)
Balance at 30 June 2010	201 971 288	201 971 288

KOUGA LOCAL MUNICIPALITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	Note	KOUGA LOCAL MUNICIPALITY 2010 R	2009 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		337 182 092	341 669 177
Cash paid to suppliers and employees		(333 497 196)	(301 626 094)
Cash generated from / (utilised in) operations	40	3 684 896	40 043 083
Interest received		14 074 441	19 331 666
Interest paid		(13 087 558)	(12 841 695)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**4 671 778**	**46 533 054**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(72 970 198)	(64 917 586)
(Increase) / decrease in intangible assets		-	(368 878)
(Increase) / decrease in non-current receivables		(261 656)	1 884 903
(Increase) / decrease in non-current investments		(1 986 397)	(2 792 895)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(75 218 251)**	**(66 194 455)**
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans raised / (repaid)		30 629 299	(7 067 060)
Increase / (decrease) in Consumer Deposits		720 647	290 652
NET CASH FLOWS FROM FINANCING ACTIVITIES		**31 349 946**	**(6 776 408)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(39 196 527)**	**(26 437 809)**
Cash and cash equivalents at the beginning of the year		42 970 672	69 408 481
Cash and cash equivalents at the end of the year	41	3 774 145	42 970 672

1 GENERAL INFORMATION

Kouga Local Municipality (the municipality) is a local government institution in Jeffreys Bay, Eastern Cape. The address of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Constitution.

2 PROCESS TO COMPLY FULLY WITH THE IMPLEMENTATION OF GRAP

The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a medium capacity municipality and must comply with GRAP by 30 June 2010. The municipality, however, took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2011.

3 LONG-TERM LIABILITIES

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Annuity Loans	89 007 039	74 320 632
Capitalised Lease Liability	21 184 668	5 241 776
Sub-total	110 191 707	79 562 408
Less : **Current Portion transferred to Current Liabilities**	20 681 994	7 396 058
Annuity Loans	17 697 519	5 301 018
Capitalised Lease Liability	2 984 475	2 095 041
Total Long-term Liabilities (Neither past due nor impaired)	89 509 713	72 166 350

Refer to Appendix A for more detail on long- term liabilities.

Deposits of R 17,936,244 (2009: R 15,949,847) are ring-fenced and attributable to the External Financing Fund (EFF)). (See note 15)

Summary of arrangements:

ANNUITY LOANS:

Annuity Loans are repaid over periods varying from four to nineteen years and at interest rates varying from 8.5% to 16.50 %. Annuity Loans are not secured.

Fixed Deposits of R 17,936,244 (2009: R 15,949,847) have been pledged to INCA as guarantees on external loans taken up. (See note 15)

Management of the municipality is of the opinion that the carrying value of Long- Term Liabilities recorded at amortised cost in the financial statements approximate their fair values.

The fair value of Long- Term Liabilities were determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

FINANCE LEASE LIABILITIES:

The Municipality as lessee

Capitalised Lease Liabilities relate to office equipment with lease terms of 5 years (2009: five years). The effective interest rate on finance leases is between 10.84% and 18.20% (2008: 12,703 % and 20,831%). Capitalised lease liabilities are secured over the items of office equipment leased.

The obligations under finance leases are scheduled below:

	KOUGA LOCAL MUNICIPALITY	
	2010	**2009**
	R	**R**
Present Value of Minimum Lease Payments due:		
Amounts payable under finance leases		
Within one year	2 984 475	2 095 041
1 to 5 years	17 769 455	3 146 735
More than 5 years		-
Present Value of Lease obligations	20 753 930	5 241 776
Less amounts due for settlement within 12 months (current portion)	(2 984 475)	(2 095 041)
Amounts due for settlement after 12 months (non-current)	17 769 455	3 146 735

The management of the municipality is of the opinion that the carrying value of Finance Leases approximate their fair values.

The municipality has finance lease agreements for the following significant classes of assets:
- Office Equipment

Included in these classes are the following significant leases:

(i) Konica Minolta 1050 Digital Copier	929 085
- Instalments are payable monthly in advance	
- Average period outstanding	22 months
- Average effective interest rate	13.65%
- Average capital redemption per month over lease period	42 231
(2) Various photocopiers and fax machines	2 757 383
- Instalments are payable monthly in advance	
- Average period outstanding	29 months
- Average effective interest rate	10.84%
- Average capital redemption per month over lease period	95 082

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
4 PROVISION FOR POST RETIREMENT BENEFITS		
Post-Employment Health Care Benefit Liability	35 213 851	32 038 000
Less: Transfer to Current Provisions	(1 693 000)	(1 693 000)
Total: Post Retirement Medical Aid Benefit Liability	**33 520 851**	**30 345 000**

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the Municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2009 by Jacques Malan Consultants and Actuaries (Pty) Ltd a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Post Employment Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:

	2010	2009
In-service members (Employees)	431	291
Continuation members (Retirees, widowers and orphans)	58	55
Total	489	346

The liability in respect of past service has been estimated to be as follows:

	2010	2009
In-service members	19 274 903	17 536 547
Continuation members	15 938 948	14 501 453
Total Liability	**35 213 851**	**32 038 000**

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- Bonitas
- Global Health
- LA Health
- Munimed
- Samwumed

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2010	2009
	%	%
i) Rate of interest		
Discount rate	9.04%	10.18%
Health Care Cost Inflation Rate	8.04%	9.18%
Net Effective Discount Rate	1.00%	1.00%
Expected Retirement Age - Females	60	60
Expected Retirement Age - Males	65	65

ii) Mortality rates

Pre-Retirement	SA 85 - 90 mortality table
Post-Retirement	PA(90) ultimate mortality table

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	52 036 000	47 343 000
Fair value of plan assets	-	-
	52 036 000	47 343 000
Unrecognised past-service cost		-
Unrecognised actuarial gains / (losses)	(16 822 149)	(15 305 000)
Present value of unfunded obligations	52 036 000	47 343 000
Net Liability	**35 213 851**	**32 038 000**
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	32 038 000	28 008 000
Recognised past service cost		-
Current service cost	2 285 000	1 272 000
Interest cost	4 819 000	3 303 000
Benefits paid	(3 928 149)	(545 000)
Balance at end of year	**35 213 851**	**32 038 000**
The amount recognised in the Statement of Financial Performance are as follows:		
Current service cost	2 285 000	1 272 000
Interest cost	4 819 000	3 303 000
Vested past service cost	-	-
Total included in staff costs (refer to note 31)	**7 104 000**	**4 575 000**

The effect of a 1 % movement in the assumed rate of health care cost inflation is as follows:

Increase		
Effect on the current service cost	801 000	624 000
Effect on the interest cost	967 000	949 000
Effect on the defined benefit obligation	10 696 000	9 317 000
Decrease		
Effect on the current service cost	(575 000)	(460 000)
Effect on the interest cost	(737 000)	(729 000)
Effect on the defined benefit obligation	(8 149 000)	(7 171 000)

4 PROVISION FOR POST RETIREMENT BENEFITS (continued)

4.2 Ex-Gratia Pension Benefit Liability

Ex-Gratia Pension Benefit Liability	305 900	336 900
Less: Transfer to Current Provisions	(37 176)	(37 176)
Net Ex-Gratia Pension Benefit Liability	**268 724**	**299 724**

The Municipality provides certain post retirement pension benefits to certain retired employees of the Municipality. According to the rules of the pension fund, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to certain pension benefits in which case the Municipality is liable for pension payments to retired members for the remainder of their lives.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2009 by Jacques Malan Consultants and Actuaries (Pty) Ltd a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Ex-Gratia Pension Benefit Plan is a defined benefit plan, of which the members are made up as follows:

Pensioners	9	9
Total	**9**	**9**

The principal assumptions used for the purposes of the actuarial valuations were as follows:	2010 %	2009 %
i) Rate of interest		
Discount rate	9.04%	10.18%
Post retirement interest rate	5.00%	5.00%
Net Effective Discount Rate	4.04%	5.18%
Expected Retirement Age - Females	60	60
Expected Retirement Age - Males	65	65

The assumed pension type used by the actuaries in their valuation was the Joint Life reducing on Principle member death. The reduction factor was 20%.

ii) Mortality rates

Post-Retirement PA(90) ultimate mortality table

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

	KOUGA LOCAL MUNICIPALITY	
	2010 R	2009 R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	305 900	336 900
Fair value of plan assets		-
	305 900	**336 900**
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	305 900	336 900
Net Liability	**305 900**	**336 900**
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	336 900	332 500
Recognised past service cost		-
Current service cost		-
Interest cost	27 700	39 000
Pensions paid	(58 700)	(34 836)
Actuarial (gain)/loss on the obligation		-
Balance at end of year	**305 900**	**336 664**
The amount recognised in the Statement of Financial Performance are as follows:		
Current service cost	-	-
Interest cost	27 700	39 000
Vested past service cost	-	-
Total included in staff costs (refer to note 31)	**27 700**	**39 000**